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German ordo-liberalism and the future of the EU

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Abstract

Far from enabling France to enhance its power over European monetary policy, the Euro has served to consolidate the Federal Republic of Germany's primacy in Europe. In this article we argue that German policies that have underwritten this primacy are determined not primarily by the ordoliberal ideas of German state managers, but rather because these ideas correspond to the requirements of the Germany's neo- mercantilist export model and the interests of its most powerful socio-economic actors. Germany's material/corporate interests – and its particular domestic and regional *predicament* – throws up enormous obstacles to the abandonment of ordoliberalism and the adoption of the more expansive fiscal policies that most observers believe are necessary to sustain the Eurozone.

Key words: European Union, Economic and Monetary Union (EMU), German monetary policy, Ordoliberalism, Franco-German relations

Introduction

Two decades after the establishment of the Economic and Monetary Union (EMU) there can be little doubt that far from enabling France to enhance its power over European monetary policy the Euro has served to consolidate the Federal Republic of Germany's primacy in Europe.

Germany's extraordinary rise to virtually unchallenged leadership over the EU has been most visible—and notorious-- in former Minister of Finance Wolfgang Schauble's management of the Eurozone sovereign debt crisis, not least during the negotiations over the draconian third bailout package with the Syriza-led government in Greece during the summer of 2015.

Following the fashionable approach of "constructivism" in EU studies (McNamara 1999), the "power of ideas" has been most commonly invoked to explain German policy and the resultant imposition of ordoliberal doctrine throughout the continent. The German commitment to what Wolfgang Munchau has characterized as "ordoliberal utopia" (Munchau 2018)—even at the expense of potential Eurozone instability—is thus assumed to be essentially discursive. Hans Bibow, for example, assigns a "critical weight" to "Germany's oddly anti-Keynesian views on matters of macroeconomic policy"(Bibow 2017). Vivian Schmidt laments "the hold of old ideas that can't be dislodged because they are so fundamental to actors' understanding of events—and themselves"(Schmidt 2014). Others attribute Germany's ordoliberal policies to "vindictive madness"(Lapavitsas 2015; Flassbeck 2016; Hodgson 2018), "abysmal ignorance," or even Germany's Lutheran heritage"(Ozment 2012).

To be sure, ideas do "matter" and ordoliberal ideas have played a decisive role in all phases of the Eurozone crisis. Indeed, ironically ordoliberalism has defined a distinctive European approach to the global financial crisis in a region that was once the global heartland of Keynesianism and the social contract. Yet, there are several problems with the assumption that ideas—whether ordoliberal or otherwise—in themselves can explain the resilience of austerity in Europe. Notwithstanding the strong influence of ordoliberalism within Germany and the European Commission, the original European integration project served essentially to buttress the "embedded liberal" order, and not destroy it, even in the area of competition policy, where widespread breaches of competition law were (and still are) observed (Buch-Hansen and Wigger 2010). As Perry Anderson has written, ordoliberalism was “a somewhat recessive gene in the makeup of the Community, latent but never the most salient in its development”(Anderson 2009). Indeed the initial blueprints for EMU contained in the Werner Report expressed almost entirely Keynesian views. A second problem for the thesis of the primacy of ideas lies in German policy towards the euro itself. Germany’s pursuit of ordoliberalism has been selective and opportunistic (Storey mimeo), as exemplified in France and Germany’s violation (with impunity) of the terms of the Stability and Growth Pact in 2003 (Talani and Casey 2008). However, it is also noteworthy that Germany responded to the global financial crisis by adopting an expansionary fiscal stimulus five times larger than that of France (Storey mimeo; this issue). Moreover, Germany’s initial response to the sovereign debt crisis was essentially designed to protect its own banks by Europeanising the problem (Thompson 2017; Talani 2016).

In this article we argue that German policies are determined not primarily by the ordoliberal ideas of German state managers, but rather because these ideas correspond to the requirements of the Germany’s neo- mercantilist export model and the interests of its most powerful socio-economic actors. German capital relentlessly pursues an export strategy that has resulted in a current account surplus of 8% in recent years. Export prowess is reinforced by production chains centered on the German manufacturing core but extending throughout central and eastern Europe and increasingly penetrating into the western Balkans and even the original “six.” Although rightly described as a “geo-economic power” (Kundnani 2014) Germany is more properly characterised as “sub-imperial.” Whilst the Federal Republic was arguable the *de facto* regional economic hegemon from the mid-1960s onward, nevertheless Franco-German joint leadership provided the geopolitical basis of all of the EU's major projects and treaties. The Franco-German accord signed with great fanfare in January, 2019 at Aachen on the 56th birthday of the Elysee Treaty is but a pale copy of the original *entente elementaire*, saturated with rhetoric but lacking substantive Eurozone reforms. At the same time, however, despite the increasingly vituperative rhetoric originating in the Trump administration, Germany is condemned to remain tethered to the erratic American superpower. Germany's material/corporate interests--and its particular domestic and regional *predicament*—throws up enormous obstacles to the abandonment of ordoliberalism and the adoption of the more expansive Keynesian policies that most observers believe are necessary to sustain the Eurozone. The contradiction between the interests of German capital and those of many of the other member states makes it extremely difficult to meet the developmental needs of the Eurozone as a whole (Talani 2017).

Permanent Crisis

The authoritarian neoliberal policies carried out by the Troika essentially reprised the structural adjustment policies that were imposed by the International Monetary Fund (IMF) on much of the global south during the global debt crisis of the 1980s. Yet, as noted above, if the rescue packages for Portugal, Ireland, Greece, and Spain were consistent with neo/ordoliberal discourse, they were fundamentally about protecting French and German banks who were the recipients of the majority of bailout funds. Moreover, the adoption of harsh austerity policies in response to the Eurozone crisis of 2010-12 shifted the burden of adjustment from the banking sector to the lower strata of society in peripheral countries. By characterising the crisis of the euro-zone as a fiscal crisis and not as one of competitiveness, EU institutions further constrained national fiscal policy in a period when, following the global financial crisis, it would have been preferable to replace supply side measure with Keynesian ones, as Obama did — albeit modestly – in the United States. The resultant harsh austerity elicited condemnation even by the U.S. Treasury and IMF. In 2011. No less than three years into the global financial crisis the European Central Bank (ECB) raised interest rates twice even as Europe experienced deepening stagnation and mass unemployment. ECB President Mario Draghi's declaration in July 2012 that he was 'ready to do whatever it takes to preserve the euro' brought the most acute phase of the crisis (for the EU although not for Greece) to an end. In 2017 the member states of the EU collectively returned to growth. The recovery has been especially pronounced in the northern countries of the EU. In 2017 Germany experienced its lowest level of unemployment (3.5%) since 1980.

Notwithstanding these developments, the economic crisis in the euro-zone has not ended. Positive growth indicators need to be set against a long period of stagnation and even negative growth rates experienced by many member states after the crisis broke out in 2009. The region's recovery has been both shallow and uneven, and the return to modest growth was achieved mostly thanks to the start of Quantitative Easing in January 2015 when consumer price inflation for the whole of the EU was 0%. The deb-driven decade-long global boom appears to be coming to an end. Since 2008 global debt levels have risen to a record high of 237% of GDP, exceeding the level of 2009 (Bloomberg 2018). The U.S. national debt increased dramatically to $22 trillion as a result of the massive decrease in corporate taxes signed into law in 2017, even as the Trump administration pursues an aggressive strategy of financial deregulation. The IMF has concluded that the surge in risky asset prices is reminiscent of the pre-2008 period. By April

2018 growth in the Eurozone slowed to 1.2% amid signs that the effects of quantitative easing were waning; Germany experienced negative growth during the third quarter, 2018. Italy slid into technical recession (Davies 2018). The structural problems of the Eurozone have not been resolved.

The debt crisis hit Greece in May, 2010, leading to massive austerity as the price of bail outs and debt reduction. During the fall, 2011 Greece experienced the full force of what has aptly been called 'Eurozone fiscal colonialism' (Legraine 2014). Having announced plans to conduct a national referendum on the Troika's bailout proposal, Prime Minister George Papandreou was replaced by a 'national unity government' of 'technocrats' led by the unelected former Vice-President of the ECB, Lucas Papademos when France and Germany threatened to withhold financial support. The result was the wholesale restructuring of Greek society and economy under the diktat of the Troika. By 2014, as a result of a series of bailout agreements, the official level of unemployment had risen to 27%, and remained at 20% in 2018. Youth unemployment exceeded 50% amid large cutbacks in social services and social provision, including a reduction of the budget for health care by one-half and the dispossession of Greek public assets. The Greek Central Bank reported an exodus of 427,000 "young, educated' Greeks between 2010 and 2016, mostly to Germany, the U.K, and the United Emirates (Kouvelakis 2018). The rise of Syriza reflected widespread disillusionment with the two main establishment parties of the center-left and center-right, the Pan-Hellenic Socialist Movement (PASOK) and New Democracy, and the inability of the Greek Communist Party (KKE) to elicit support for a radical socialist strategy. In national elections of January 2015, Syriza came to power, in coalition with a small nationalist party, with 36.3% of the popular vote. Neither during the campaign nor after forming a government did the party's leadership advocate withdrawal from the Eurozone.

Rather, it sought to achieve an ‘honorable compromise’ with the European institutions including decreased austerity and debt write-offs through mass mobilization and appeals to the European left for solidarity.

The Troika threatened to cut off liquidity to Greek banks if the government did not submit to all elements of the bailout program. Syriza’s bargaining power was very limited and there was very little evidence of European solidarity. While only *hundreds* demonstrated in Berlin in July 2015 against austerity for Greece; by contrast three months later *more than 150,000* protested in Berlin against the Transatlantic Trade and Investment Pact. In a referendum called by Syriza in July 2015, 62% of Greek voters rejected a new, harsher bailout package. However, Prime Minister Alexis Tsipras and the Syriza leadership remained unwilling to exit the Eurozone, a strategy that would almost certainly have had massive de-stabilizing economic as well as political consequences (Fouskas 2017). Faced with the ECB’s threat to cut off liquidity, the government capitulated to a new round of savage budget cuts, tax increases, and privatizations of infrastructure in return for an additional 86 billion euros. After expelling its radical wing, which had called for exit from the Eurozone, Syriza returned to power in September elections with 35.5% of the vote, condemned to preside over continuing austerity.

The Troika’s diktat applies not only to Greece but also to Italy, founding member and third largest economy in the EU. In 2011 Prime Minister Silvio Berlusconi was compelled to resign under pressure from Brussels and the financial markets in favor of the ‘technocrat’ and former European Commissioner for Competition, Mario Monti. As a consequence of the austerity faced by Italy under the technocratic governments of Monti, Letta and Renzi, Italian populism raised to power winning the elections of March 2018 (Talani 2019 forthcoming).

The Euro-zone crisis can be conceptualized a crisis of competitiveness which affected in particular the Italian export-oriented manufacturing sector. The backlash suffered from the establishment of the Euro brought an increased discontent among the Italian electorate.

This was exacerbated by the failure to compensate the losers from the crisis due to the austerity measures identified by the EU institutions as the way out of the crisis. Equally, Italy suffered a failure of representation due to the disappointment with the traditional Italian parties, especially Forza Italia and the PD which were deemed responsible for the outbreak of the crisis, in the case of the Berlusoni government, and for its austerity-based resolution, in the case of the governments of Monti-Letta and Renzi (Talani and Rosina 2019).

The ensemble of the above dynamics led the Italian electorate to move to the populist, anti-establishment offers of the Lega and the Five Star movement, which had clearly identified the origins of the Italian economic difficulties in the establishment of the Euro and in the Euro-zone crisis.

In turn, their alliance, being a purely opportunistic one, is very unlikely to collapse any time soon. Moreover, given the inability of the winning Italian coalition to turn their back to the EU institutions and to leave the Euro-zone, for reasons too long to discuss here, the populist government is likely to try and keep their electorate by identifying in the migrants the scapegoats for the consequences of the Euro-zone crisis austerity. This is a strategy which is already, unfortunately, very clearly developing.

Alternatives

Can the condition of crisis be resolved through the transition to a progressive European fiscal and monetary federalism within the framework of existing European institutions? Can Germany and its northern allies be won over to Keynesian policies? Given the widespread disparities within the eurozone, there is general agreement that, at minimum, three fundamental reforms would need to be adopted: first, the establishment of an EU budget with the power of supranational taxation could allow for counter-cyclical policy as well as an industrial policy. At the present time the EU budget is 1% of EU GDP, and national budgets are subject to strict fiscal controls. Such a budget would need to be substantially larger, perhaps within the range of 5-7 per cent, as called for the in the McDougall Report of 1977. A second reform is the transformation of the existing European Stability Mechanism, based in Luxembourg, into a fully-fledged European Monetary Fund under supranational authority that would allow for the issuance of Eurobonds and the mutualization of debt. A third reform is a genuine banking union along the lines of the U.S. federal deposit insurance corporation. These reforms, which would require Treaty changes, would lay the basis for a set of additional measures including corporate tax harmonization, a financial transactions tax, and a social chapter. The end result of these reforms would be a break with policies of internal devaluation and austerity in favor of a progressive fiscal federalism along more or less left-Keynesian lines. Arising from within heterodox and Keynesian circles, these measures have been advocated ever since the Maastricht Treaty, most notably in *EuroMemorandum*, the annual report of the EuroMemo Group (Euro-memorandum 2018; Stiglitz 2016; Lapavitsas et al. 2012; Flassbeck and Lapavitsas 2015; Varoufakis 2017; Godley 1992; De Grauwe 1998).

As the case of Greece showed, reforms of this scale—representing fundamental challenges to ordoliberal “red lines”-- inevitably lead to confrontation with European institutions and a northern bloc of member states led by Germany. Their realization would require either a substantially greater degree of progressive federalist solidarity than was achieved during the

Greek crisis, or else a dramatic transformation of the very nature of German hegemony in Europe. The former would entail at the very least a highly mobilized and pan-European labor movement while the latter would require a transition from German 'ordoliberalism', resulting either from enlightened self-interest or pressure from other states, most obviously France. Yet, at the present time, none of these scenarios appears realistic.

Franco-German Restoration?

The leading contemporary approach to Eurozone reform centres around a reassertion of Franco-German leadership, a strategy premised on the ability of France to secure the conversion of Germany to a more or less benevolent and at least bilaterally shared systemic leadership position. Following his victory in the French Presidential elections of April 2017 and the success of his political party En Marche in the National Assembly in May, Emmanuel Macron sought to reassert France's traditional shared leadership status over the EU that has been surrendered as a result of years of slow growth and mounting indebtedness. His self-proclaimed 'Revolution' is essentially disciplinary and neoliberal, subordinated to Germany's ordoliberal diktat. Having achieved two decisive electoral victories over the Parti Socialiste, from which he resigned in 2016, Macron has sought first to complete the domestic exit from the post-war social settlement started by Francois Mitterrand in 1981: 'I want to get out of the status quo that was established between 1945 and 1970 (Sylvaine-Chassany 2018).' Sweeping reforms are designed to appease the German Finance Ministry and, more broadly, German ordoliberal sensitivities and opposition to a 'transfer union' (Chazan 2018). Under Macron the budget deficit was reduced to 2.6%, leading to the cancellation of the Commission's 'excessive budget procedure' even as budget minister Gerald Darmanin insisted that 'The right deficit is zero (Sylvaine-Chassany 2018).'

Macron has launched a frontal assault on the French welfare state and an increasingly divided and demoralized labor movement. In November 2017, he used a 'fast track process' to diminish the authority of the National Assembly and pass a set of anti-union labor laws that are more far-reaching than the El Khomri labor decrees of 2016, deemed insufficiently transformative by Macron. Macron then challenged the French National Railway Company (SNCF) unions, demanding reforms in all dimensions of rail services, including working rules and pensions that have been described by *Le Monde* as 'the biggest change for the SNCF since its founding in 1937 (Nichols 2018).' Victory over the railway unions, and especially the militant CGT (Confédération générale du travail), would reprise in France Margaret Thatcher's decisive defeat of the UK coal miners in 1984, the subsequent defeat of the remains of the post-war settlement, and the consolidation of neoliberalism.

Macron has appealed to a resurgent spirit of 'Europeanism' which, as noted above, has historically served as the rhetorical justification for neoliberal policies, while simultaneously appeasing German sensitivities and consolidating his domestic standing vis a vis the Rassemblement Nationale (formerly Front Nationale) even as he seeks to challenge the German fixation with ordoliberalism.

German Hegemonic Transformation?

A second approach to progressive reform proceeds not from the logics of progressive federalism or intergovernmental bargaining, but rather from the possibility of benevolent

German leadership. Can the structural interests of German capital accommodate the developmental and political needs of the Eurozone as a whole? Could Germany as a matter of 'enlightened self-interest' abandon its ordoliberal worldview and reprise in the Eurozone a form of hegemonic leadership analogous to that played by the United States in the Bretton Woods system? After all, the absence of Eurozone reform has potentially massive costs for Germany. Elite circles in Germany are well aware that Eurozone crisis is a 'latent but chronic condition (Kluth 2018)' and that a break-up would be catastrophic. Not only would the failure of structural reform deprive German industry of an undervalued currency, it would also leave the Eurozone vulnerable to future crises, imperiling the euro itself. By gravely weakening Macron, it would lay the basis for a resurgence of the French far-right. Although there is plenty of support for this scenario (Blyth and Matthijs June 2012; Bulmer and Patterson 2013; Bulmer 2014; 'Europe's Reluctant Hegemon, Varoufakis 2013; Blyth and Tilford, 2018), there are reasons to doubt that Germany policy towards the Eurozone going forward will be primarily a matter of ideology, and not power and interest.

Does the German state have the power and resources to carry out essentially left-Keynesian macro-economic policies necessary to stabilize the Eurozone? Germany's incremental strategy of crisis management throughout bailouts and austerity has itself been costly for German public finances, although not of course for German banks (Steinberg and Vermeiren 2016). The Bundesbank remains liable for massive contributions to the Target2 credit system. The mutualization of debt via the introduction of Eurobonds would represent a significant new liability for Germany. The establishment of a debt redemption fund – pooling debt over 60% of GDP – would require significant new spending, which explains why Germany has categorically rejected joint liability in the form of a genuine banking union. Germany’s financial liability could also increase substantially if it were to accept a European deposit guarantee scheme, rejected in 2013 as an act of ‘brutal power politics’ (Spiegel 2013) and perhaps even less likely under the new Grand Coalition. Significant fiscal expansion – now prohibited under Germany’s own balanced budget law – would increase debt and reduce to the ability to recapitalize Germany’s weakened banks. The moral hazard implicit in Eurobonds would be likely to expand significantly the cost of these programs.

The growing strength of the right in Germany as reflected in the September 2017 elections greatly strengthens political resistance to a ‘transfer union.’ Reacting to the formation of a MFS/Northern League coalition government that will preside over a budget deficit equal to 130 per cent of GDP, the German weekly *Der Spiegel* complained of ‘moochers in Rome.’ Matteo Salvini, leader of the Northern League, responded that ‘Italy is not a colony, we are not slaves of the Germans or the French, the spread, or finance (Varoufakis 2018).’ In addition, Germany faces a host of longer-term structural challenges including projected low growth rates far into the future, population decline, years of low public investment and productivity (Fratzscher 2018), and migration. Germany’s vulnerability is perhaps illustrated most vividly in its core automobile sector, challenged not only by Donald Trump’s threatened trade wars but also by technological changes in automobile production that are reducing Germany’s advantages and working to the benefit of China (Bloomberg Business week 2018; Varoufakis and Gokay 2018).

These macro-economic and other realities underscore the tremendous difficulties that Germany would encounter in seeking to implement a project of “benevolent leadership.” The

German commitment to austerity is grounded in the export mercantilist model that has served as the central organizing principle of German foreign policy since World War II, as the German economy has become 'structurally reliant on foreign demand for its growth (Tilford 2010).' Since the late 1990s, German capital has pursued a strategy of relentless cost cutting in support of this model. A succession of reform programs and 'employers' offensives (Kinderman 2005)' undertaken by both the centre-right Christian Democratic Union (CDU)/Christian Social Union (CSU) and centre-left Social Democratic Party (SPD) dramatically decreased unit labour costs, especially after 2002 in conjunction with the ensuing Hartz IV labour reforms. Germany cannot easily give up on the Eurozone, which allows Germany to enjoy a structural bonus of competitiveness because inflation differentials with the other members of the Eurozone run in its favour. The strict, anti-inflationary policy of Germany, a clearly ordoliberal policy, in a permanently fixed exchange rate system and the impossibility of competitive devaluations by the other members of the EMU allows Germany to progressively lower its prices at exports.

At the same time, crucial stages of German manufacturing and commodity supply chains—primarily geared to the assembly stage-- have been relocated throughout central and Eastern Europe, thereby enabling the German export model to increase its international competitiveness (IMF 2013; Gross 2013). The asymmetries of the EMU and these supply chains illustrate an "astonishing continuity in the basic structure of German capitalism (Germain 2017)." They indicate the vast scope of German control over the European economy. Germany accounts for approximately 25% of EU exports and 30% of European GDP. If the supply chains (which are closely dependent on the continuation of the Schengen Agreement, allowing the free flow of commodities across borders) are taken into account, the figures are considerably higher (France Strategie 2016). German primacy is reinforced by its position as the central hub linking Russian natural gas to Europe, a position it has thus far maintained despite massive opposition from many EU member states, the Commission, and the United States. The 'export mercantilist' orientation that has governed Germany since 1945 has only become more pronounced and qualitatively more significant in the context of the Eurozone. In 2017 Germany's trade surplus was 234b euros (compared to China's 390b euros and Japan's 140b).

The traditional link between export-led growth and expansion of the domestic market based on increasing wages has been weakened, but it has not been completely severed. In contrast to most other advanced capitalist states, the German strategy of outsourcing has served to strengthen the domestic manufacturing base, as primarily low-skill and labor-intensive production is located outside of Germany. In his path-breaking analysis, Julian Germain has identified a 'distinctive complementarity between German foreign investment and domestic production that sets Germany apart from its neoliberal peers and illuminates its austerity course (Germain 2017:13-14).' The euro has of course underwritten the extraordinary increase in its export ratio from 26 per cent of GDP in 1998 to 46 per cent in 2016, facilitating an overall export surplus of approximately 8%.

By 2015 the United States surpassed France as Germany's largest export market, a position it had held since 1960. But Germany's ordoliberal export strategy has also generated increasing dependence on emerging markets, most notably China (15% of the revenue of the top 30 German companies is derived from their sales in China), but also in the European periphery (Sonmer 2018). In the latter case, this involves a tendential transformation of the significance of the Eurozone from ‘sales market’ to ‘supply zone’ that ‘relegates the eurozone to a subsidiary role as a regional production center for German manufacturers (Germain 2017:3, 18).’ At the same time, German capital is deepening its ties with the Western Balkans, and especially Serbia. The 'Berlin Process' and 'Berlin Plus Process' launched by Chancellor Merkel in 2016 are designed ultimately to incorporate the entire region within the EU framework (Colibasanu 2017). Serbia and Montenegro have begun lengthy accession negotiations. All six have obtained visa-free travel and Stabilisation and Association Agreements. Heavily dependent on the German economy, the Visegrad countries, notwithstanding their Euroscepticism, have strongly adhered to German economic policy (Farkas 2016). For its part, Germany has sought to reduce EU pressure on Hungary and Poland for violating EU policies on migration, refugees, and the rule of law.

All this contradicts assertions that Germany under Chancellor Angela Merkel is becoming the new leader of the liberal trading order. Germany's current account surplus with most of the rest of the Eurozone drains net savings from trading partners while imposing a logic of austerity, slow growth, and internal devaluation. For the past two decades the EU has grown at only 1% per year; Italy has essentially stagnated as its economy is 5% smaller per capita than it was in 2001. In the first decade of its membership in EMU, Italy lost 20% of its export competitiveness; Greece and Spain experienced worse (Talani 2017:96). At the same time German FDI is a crucial source of capital for much of the rest of the EU; 50% of German FDI is undertaken in the Eurozone itself. This is especially the case for the CEE member states. The rise of German economic power and the resultant conflicts of interests demonstrate that although there is clearly a European 'business elite,' there is strictly speaking no European 'transnational capitalist class'. On the contrary, as noticed in the introduction, the interests of different fractions of capital in the EU are by no means identical (Cafruny and Ryner 2019), a factor that helps to explain the British decision to leave the EU. While Brexit encountered significant opposition from the City of London

(James and Quaglia 2019), it is likely to serve as a means of deepening the neoliberal project in the guise of populism and nationalism. Indeed, British ultra-liberals and extreme Thatcherites have exploited working class discontent with the austerity measures these same actors had imposed to rescue the British financial sector in the aftermath of the global financial crisis. In the absence of a Polanyian "double movement," the model of British capitalism will need to develop even further along neoliberal lines if it is to experience further growth. Thus it will thus likely be accompanied by a further reduction of corporate taxes, liberalisation of labour markets, relaxation of environmental and other forms of regulation, and an even more substantial shift from the manufacturing to the financial sector, policies that would be consolidated within the framework of a highly predatory post-Brexit U.S.-U.K. trade relationship. However, the experience of the UK is unlikely to have general application. Indeed, the UK is the only EU member state that might be able to sustain its economy outside of the EU, given its growing specialization on financial markets as its main competitive advantage in the new global division of labour (Talani 2018). The continuing reliance on the German market and (limited) financial support, means that there is little likelihood that subaltern capitalist classes would prefer to exit the Eurozone in favour what would almost certainly be a resumption of regional monetary rivalry.

In the context of the weakness of the European left, they are condemned to remain in what Magnus Ryner has aptly called the 'ordoliberal iron cage (Ryner 2015).' The capitulation to deeply unpopular ordoliberal constraints by Syriza in 2015 and the Italian coalition government at the end of 2018 reinforces this bleak conclusion picture.

Conclusion

Given the asymmetric nature of the EMU and the dynamics of German manufacturing, it seems clear that the relation between Germany and the EU is one of mutual dependence. If, unlike the UK, the rest of the EU can hardly sustain global competition outside of the EU and of the Euro-zone, it is also the case that Germany needs both the Eurozone and the single market to sustain its neo-mercantilist export model. Indeed, one might claim that the current situation in the Eurozone and the EU is a Nash equilibrium, where rationally all players are better off in the status quo, notwithstanding its dysfunctions and long-term dangers. This points towards the continuation by Germany of a policy of incremental and reactive changes to the economic governance structure both of the EU and of the Eurozone.

It is also possible that "irrational" forces will prevail, as the growing support for right-wing populist and neo-fascist political parties in various EU countries demonstrates. To give just one example, as noted above the new, populist/fascist coalition of the Lega Nord and the Five Star Movement in Italy did not actually plan to leave the Eurozone or even fundamentally to disrupt the EU project, but rather has sought to shift the blame for Italy's problems on migrants. Yet, it is possible that in an increasingly volatile atmosphere a mixture of incompetence and arrogance could push the Italian government to issue a more fundamental challenge to the Eurozone or even to the EU itself. Recent upheavals in France at the beginning of 2019 suggest the possibility of an even more consequential rejection. The repercussions of such a challenge, if it were to succeed, are incalculable but would certainly prove catastrophic, not last to Germany.

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